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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: January 31, 2006

RE: STAFF REPORT FOR ARIZONA-AMERICAN WATER COMPANY, INC. –
PARADISE VALLEY WATER DISTRICT'S APPLICATION FOR
APPROVAL OF AN AGREEMENT WITH THE PARADISE VALLEY
COUNTRY CLUB (DOCKET NO. W-01303A-05-0910).

Attached is the Staff Report for Arizona-American Water Company, Inc. – Paradise Valley Water District's application for approval of an agreement with the Paradise Valley Country Club. Staff recommends approval of the agreement.

EGJ:DWC:tdp

Originator: Darron W. Carlson

Attachment: Original and thirteen copies

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Docket No. W-01303A-05-0910

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

ARIZONA-AMERICAN WATER COMPANY, INC. -
PARADISE VALLEY WATER DISTRICT

DOCKET NO. W-01303A-05-0910

APPLICATION FOR APPROVAL
OF AN AGREEMENT WITH THE
PARADISE VALLEY COUNTRY CLUB

JANUARY 2006

STAFF ACKNOWLEDGMENT

The Staff Report for Arizona-American Water Company, Inc. – Paradise Valley Water District, Docket No. W-01303A-05-0910 was the responsibility of the Staff member listed below. Darron W. Carlson was responsible for the review and analysis of the Company's application and the Staff recommendations.

A handwritten signature in black ink, consisting of two large, stylized loops followed by a horizontal line and a small upward stroke at the end.

Darron W. Carlson
Public Utilities Analyst Manager

EXECUTIVE SUMMARY
ARIZONA-AMERICAN WATER COMPANY –
PARADISE VALLEY WATER DISTRICT
DOCKET NO. W-01303A-05-0910

Arizona-American Water Company, Inc. – Paradise Valley Water District (“Company”) filed an application for approval of an agreement with Paradise Valley Country Club (“PVCC”). The agreement allows PVCC a 15 percent discount from the Company’s standard turf rates, has a 15-year term, and requires PVCC to accept delivery of service during off-peak hours, except in circumstances where it can demonstrate to the Company its then existing needs cannot be satisfied during such period.

Staff recommends that the Commission approve the agreement.

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Summary of Filing

On December 22, 2005, Arizona-American Water Company, Inc. – Paradise Valley Water District (“Company”) filed an application, for approval of an agreement with Paradise Valley Country Club (“PVCC”), with the Arizona Corporation Commission (“Commission”).

The agreement allows PVCC a 15 percent discount from the Company’s standard turf rates and has a term of 15 years. The agreement also requires PVCC to accept delivery of service during off-peak hours, except in circumstances where it can demonstrate to the Company its then existing needs cannot be satisfied during such period.

The agreement is written to become effective at the same time as new rates are effective for the Company in its pending rate case application in Docket No. W-01303A-05-0405. The hearing for the rate case is currently scheduled to begin March 27, 2006. The effective date of new rates, as a result of the rate case proceeding, is likely to be in August or September of 2006.

Due to the filing date of this application, Staff first completed all of its work on the rate case application. Once Staff’s testimony was filed, Staff turned its attention to this application. Staff has treated this application separately from the rate case; however, if the Hearing Division wishes to consolidate this filing with the concurrent rate case application, Staff has no objection.

Company Background

Arizona-American Water Company, Inc. is the largest, investor-owned water utility in the state of Arizona. It serves approximately 131,000 customers of various types throughout the state. The Paradise Valley Water District serves approximately 4,737 metered customers of various classes, of which more than 93 percent are residential customers in Paradise Valley, Scottsdale, and some unincorporated areas of Maricopa County.

The Company and PVCC currently cooperate under an agreement dated June 16, 1995 and approved, before signing, by this Commission in Decision No. 59079 (May 5, 1995). Since that time, several amendments have been made to the agreement to allow for surcharges for cost recovery of Central Arizona Project (“CAP”) water and to extend the term of the agreement.

PVCC has no alternative source of water for turf irrigation. Treated effluent is not available in the area. PVCC explored using CAP water for turf irrigation, but was unable to obtain all the necessary approvals. To reduce impacts on the Company’s other customers, PVCC constructed, at its sole expense, a storage reservoir and associated facilities. These facilities allow PVCC to take water from the Company during off-peak hours and store it for later use.

The Agreement

The new water service agreement is dated December 15, 2005 and will become effective at the same time as new rates are effective in the concurrent rate case proceeding. The

agreement requires PVCC to take its deliveries during off-peak hours, except in circumstances where it can demonstrate to the Company its then existing needs cannot be satisfied during such period, and allows the Company limited ability to temporarily interrupt service. PVCC is allowed a 15 percent discount from the Company's turf rates and any related surcharges.

PVCC has the ability to terminate the agreement with sixty (60) days written notice of termination to the Company and payment of a \$1,000 termination fee. Any disputes will be subject to arbitration.

Staff Recommendations

Staff recommends approval of the agreement between the Company and PVCC.

Staff further recommends that the Company be ordered to notify the Commission, and request its approval for any future amendments to the agreement.

Staff further recommends that the Company file an executed copy of the agreement with Docket Control within 30 days of the effective date of the Decision in this proceeding.